

COUNTY EXTENSION COUNCIL
McPHERSON COUNTY, KANSAS

COMPONENT UNIT
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2016

George, Bowerman & Noel, P.A.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

County Extension Council
McPherson, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the County Extension Council of McPherson County, Kansas, (Council) a component unit of McPherson County, Kansas, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the County Extension Council of McPherson County, Kansas, as of December 31, 2016, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of Extension Council's proportionate share of net pension liability and schedule of Extension Council's contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

George, Bowlerman & Noel, P.A.

Wichita, Kansas
July 7, 2017

**COUNTY EXTENSION COUNCIL
McPHERSON COUNTY, KANSAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the McPherson County Extension Council (Council), we offer readers of the Council's financial statements this narrative overview and analysis of the financial activities of the Council for the fiscal year ended December 31, 2016.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Council exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$96,678 (net position). Of this amount, \$45,561 represents net position invested in capital assets, net of accumulated depreciation and related debt. The remaining amount of \$51,117 is unrestricted net position and may be used to meet the Council's ongoing obligations to citizens and creditors.
- The Council's total net position increased by \$62,797, or approximately 185% from 2015.
- As of the close of the current fiscal year, the Council's General Fund reported ending fund balance of \$122,221 or approximately 33% of the total expenditures for 2016. This represents an increase from December 31, 2015 of \$12,456, or about 11%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Council's basic financial statements. The Council's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the Council's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Council's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Council is improving or deteriorating.

The Statement of Activities presents information showing how the Council's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for certain items that will only result in cash flows in the future fiscal periods (e.g., earned but not used compensated absences).

Both of the government-wide financial statements present the functions of the Council that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Council include agriculture and natural resources, 4-H youth development and family and consumer sciences.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Council, like other state and local governments, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the activities of the Council are accounted for in the general fund. The general fund is a governmental fund.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating an entity's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the Council's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Council maintains a single governmental fund. The basic governmental fund financial statements can be found on pages 10 through 14 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 28 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the Council, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$96,678 as of December 31, 2016.

A significant portion of the Council's net position (\$45,561) reflects its investments in capital assets (e.g., equipment), less any debt used to acquire those assets that is still outstanding. The Council uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the Council's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

McPHERSON COUNTY EXTENSION COUNCIL'S NET POSITION

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 134,476	\$127,102
Capital assets, net	<u>45,561</u>	<u>4,320</u>
Total assets	<u>180,037</u>	<u>131,422</u>
Current liabilities	12,255	17,337
Noncurrent liabilities	<u>76,262</u>	<u>77,062</u>
Total liabilities	<u>88,517</u>	<u>94,399</u>
Net position:		
Invested in capital assets, net	45,561	4,320
Unrestricted	<u>51,117</u>	<u>29,561</u>
Total net position	<u>\$ 96,678</u>	<u>\$ 33,881</u>

Analysis of the Council's operations – The following table provides a comparative summary of the Council's operations for the years ended December 31, 2016 and 2015.

McPHERSON COUNTY EXTENSION COUNCIL'S CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 85,224	\$ 94,671
General revenues:		
Payments from McPherson County, Kansas	<u>298,137</u>	<u>274,932</u>
Total revenues	<u>383,361</u>	<u>369,603</u>
Expenses:		
Agriculture and Natural Resources	104,021	111,093
4-H Youth Development	86,893	124,962
Family and Consumer Sciences	<u>129,650</u>	<u>138,776</u>
Total expenses	<u>320,564</u>	<u>374,831</u>
Change in net position	62,797	(5,228)
Net position, beginning of year	<u>33,881</u>	<u>39,109</u>
Net position, end of year	<u>\$ 96,678</u>	<u>\$ 33,881</u>

Total revenues increased by \$13,758 with the decrease being attributed to revenues from KSU salary participation of \$6,950 and in program fees and other miscellaneous revenues of \$2,497. The appropriations from McPherson County increased by \$23,205. Total expenses decreased \$54,267 with agriculture and natural resource programs attributing to \$7,072, 4-H development programs decreasing by \$38,069 and family and consumer sciences programs comprising \$9,126 of the total increase in expenses.

FINANCIAL ANALYSIS OF THE COUNCIL'S FUNDS

Governmental fund – The focus of the Council's governmental fund is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Council's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Council's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Council's General Fund reported an ending fund balance of \$122,221, an increase of \$12,456 from 2015. Of the ending fund balance, \$6,000 is committed for subsequent year's expenditures while the remaining \$116,221 constitutes unassigned fund balance.

Total revenues increased \$13,758 for 2016 and expenditures increased by \$2,221 for 2016. The revenue increase is attributed to the appropriations from McPherson County which increased \$23,205 from 2015. Total expenditures increased \$2,221, which included an increase of equipment replacement costs of \$42,214 however, salaries and benefit costs decreased \$27,382 due to an extension agent position being unfilled for approximately 4 months during 2016. All other program expenditures decreased by \$12,611. The appropriation from McPherson County increased from the 2015 amount by \$23,205, which includes a supplemental appropriation above the budgeted amount of \$15,000 for assistance in replacing a Council vehicle during 2016. This resource comprises about 78% of the total resources of the Council for 2016. Salaries and benefits comprise approximately 66% of the Council's total expenditures for 2016.

General Fund Budgetary Highlights – The General Fund total actual revenues of \$383,361 were 92% of the total amount anticipated in the 2016 budget. Budgetary expenditures totaled \$370,905, which represented 87% of the budgeted expenditures for 2016. General Fund expenditures were budgeted to decrease about \$8,747, or about 2% from the 2015 budget and the 2016 actual expenditures increased by less than 1% from the 2015 actual expenditures. Revenues were budgeted to also increase 2% from the 2015 budget however; the actual 2016 revenues increased 4% from the prior year actual revenues. The result was an increase in budgetary basis fund balance for the General Fund in the amount of \$12,456.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Council's investment in capital assets consists entirely of machinery and equipment items. The net investment in capital assets at December 31, 2016 and 2015 was \$45,561 and \$4,320, respectively. During 2016, the Council purchased a new vehicle at a cost of \$42,699.

Additional information regarding capital assets can be found at Note 3 on page 21 of this report.

The Council's outstanding long-term debt at December 31, 2016 totaled \$76,262 and was comprised of accrued compensated absence liabilities of \$30,795 and the Council's proportionate share of the net pension liability related to the Kansas Public Employee's Retirement System Plan of \$45,467. Additional information on the Council's long-term debt activity can be found at Note 4 to the financial statements located at page 22 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In the 2017 budget, revenues are budgeted to increase \$1,784 or less than 1% from the 2015 budget year with appropriations from McPherson County, Kansas representing about 85% of the budgeted revenues. Certified assessed valuations of McPherson County, Kansas, on which the Council's appropriations are derived, increased approximately 4% over the preceding year. Total budgeted expenditures for the 2016 budget year are \$426,569, an increase of \$1,784 from the 2016 budget year.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Council's finances. If you have questions about this report or need any additional information, contact the McPherson County Extension Council, at 600 West Woodside, McPherson, Kansas 67460-0308, call (620) 241-1523, or e-mail at www.mcpherson.ksu.edu.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**COUNTY EXTENSION COUNCIL
McPHERSON COUNTY, KANSAS**

STATEMENT OF NET POSITION

December 31, 2016

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and investments	\$ 134,476
Capital assets:	
Equipment	129,690
Less accumulated depreciation	<u>(84,129)</u>
Total Assets	<u>180,037</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows of resources related to pensions	<u>8,207</u>
<u>LIABILITIES</u>	
Accounts payable	12,255
Noncurrent liabilities:	
Due within one year	10,829
Due in more than one year	<u>65,433</u>
Total Liabilities	<u>88,517</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred inflows of resources related to pensions	<u>3,049</u>
<u>NET POSITION</u>	
Invested in capital assets, net	45,561
Unrestricted	<u>51,117</u>
Total Net Position	<u>\$ 96,678</u>

The accompanying notes are an integral
part of the financial statements.

**COUNTY EXTENSION COUNCIL
McPHERSON COUNTY, KANSAS**

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental Activities:			
Agriculture and Natural Resources	\$ 104,021	\$ 28,685	\$ (75,336)
4-H Youth Development	86,893	20,681	(66,212)
Family and Consumer Sciences	<u>129,650</u>	<u>35,858</u>	<u>(93,792)</u>
Total Governmental Activities	<u>\$ 320,564</u>	<u>\$ 85,224</u>	(235,340)
General Revenues:			
Payments received from McPherson County			<u>298,137</u>
Change in net position			62,797
Net position, beginning of year			<u>33,881</u>
Net position, end of year			<u>\$ 96,678</u>

The accompanying notes are an integral
part of the financial statements.

FUND FINANCIAL STATEMENTS

**COUNTY EXTENSION COUNCIL
McPHERSON COUNTY, KANSAS**

BALANCE SHEET

GENERAL FUND

December 31, 2016

ASSETS

Cash and short-term investments	<u>\$ 134,476</u>
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LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable	<u>\$ 12,255</u>

Fund balance:	
Committed:	
Future operations	6,000
Unassigned	<u>116,221</u>

Total fund balance	<u>122,221</u>
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Total liabilities and fund balance	<u>\$ 134,476</u>
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The accompanying notes are an integral
part of the financial statements.

**COUNTY EXTENSION COUNCIL
McPHERSON COUNTY, KANSAS**

**RECONCILIATION OF GENERAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES**

December 31, 2016

General Fund Balance	\$ 122,221
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Amounts reported for governmental activities in the
statement of net position are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported
in the funds statement (net of accumulated depreciation):

Capital assets	\$129,690	
Less accumulated depreciation	<u>(84,129)</u>	45,561

Long-term liabilities are not due and payable in the
current period and therefore are not reported
in the funds statement:

Compensated absences payable	(30,795)	
Net pension liability for Kansas Public Employee's Retirement System Plan including deferred outflows of resources and deferred inflows of resources	<u>(40,309)</u>	<u>(71,104)</u>

Net Position of Governmental Activities	<u>\$ 96,678</u>
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The accompanying notes are an integral
part of the financial statements.

**COUNTY EXTENSION COUNCIL
McPHERSON COUNTY, KANSAS**

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE –
GENERAL FUND**

Year ended December 31, 2016

Revenues:

Appropriation from McPherson County	\$ 298,137
Agriculture and Natural Resources	28,685
4-H Youth Development	20,681
Family and Consumer Sciences	<u>35,858</u>

Total revenues	<u>383,361</u>
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Expenditures:

Agriculture and Natural Resources	120,784
4-H Youth Development	103,660
Family and Consumer Sciences	<u>146,461</u>

Total expenditures	<u>370,905</u>
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Revenues over expenditures	12,456
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Fund balance, beginning of year	<u>109,765</u>
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Fund balance, end of year	<u>\$ 122,221</u>
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The accompanying notes are an integral
part of the financial statements.

**COUNTY EXTENSION COUNCIL
McPHERSON COUNTY, KANSAS**

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE –
GENERAL FUND TO THE STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2016

Net Change in Fund Balance – General Fund	\$ 12,456
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Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. In the current period, these
amounts are:

Capital outlay	\$ 42,699
Depreciation	<u>(1,458)</u>

Excess of depreciation expense over capital outlays	41,241
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Pension contributions is an expenditure in the governmental
funds but reduces the net pension liability in the statement
of net position. Additionally, the effect of changes in
deferred outflows and inflows of resources for pensions
are only recorded in the statement of activities.

	1,502
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Some expenses reported in the statement of activities do
not require the use of current financial resources and
therefore are not reported as expenditures in the funds:

Compensated absences payable	<u>7,598</u>
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Change in Net Position of Governmental Activities	<u>\$ 62,797</u>
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The accompanying notes are an integral
part of the financial statements.

**COUNTY EXTENSION COUNCIL
McPHERSON COUNTY, KANSAS**

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
FUND BALANCE – BUDGET AND ACTUAL – BUDGET BASIS**

Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
Revenues:				
Appropriation from County	\$ 283,137	\$ 283,137	\$ 298,137	\$ 15,000
Kansas State University				
salary participation	50,648	50,648	45,646	(5,002)
Educational services	<u>85,000</u>	<u>85,000</u>	<u>39,578</u>	<u>(45,422)</u>
Total revenues	<u>418,785</u>	<u>418,785</u>	<u>383,361</u>	<u>(35,424)</u>
Expenditures:				
Salaries and wages	230,000	230,000	209,174	20,826
Employee benefits	42,980	42,980	37,321	5,659
Travel and subsistence	10,500	10,500	6,663	3,837
Printing, supplies and postage	20,750	20,750	14,777	5,973
Educational services	97,500	97,500	11,051	86,449
Utilities, telephone and rent	19,055	19,055	19,846	(791)
Equipment	4,000	4,000	44,409	(40,409)
Miscellaneous	<u>—</u>	<u>—</u>	<u>27,664</u>	<u>(27,664)</u>
Total expenditures	<u>424,785</u>	<u>424,785</u>	<u>370,905</u>	<u>53,880</u>
Revenues over (under) expenditures	(6,000)	(6,000)	12,456	18,456
Fund balance, beginning of year	<u>6,000</u>	<u>6,000</u>	<u>109,765</u>	<u>103,765</u>
Fund balance, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 122,221</u>	<u>\$ 122,221</u>

The accompanying notes are an integral
part of the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

**COUNTY EXTENSION COUNCIL
McPHERSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Reporting Entity

The financial statements of the McPherson County Extension Council (Council) for the year ended December 31, 2016 are included in the McPherson County, Kansas Comprehensive Annual Financial Report for the year ended December 31, 2016 as a component unit. The McPherson County Extension Council is included in McPherson County's reporting entity because the County is considered to be financially accountable for the Extension Council due the fiscal dependency and the financial benefit or burden relationship the Council has with McPherson County. The Board of County Commissioners is required by state statute to approve the annual operating budget of the McPherson County Extension Council and levy property taxes, within statutory limitations, for the financing of such budgeted appropriations. The Council's taxes are levied under the taxing authority of the County and are included as part of the County's total tax levy. The McPherson County Extension Council is operated under the laws of the state of Kansas to give instruction and practical demonstrations in agriculture, marketing, home economics, 4-H club and youth work and community and resource development to all persons in McPherson County. The Council Board of Directors is elected from each County Commission district throughout the County and is comprised of 24 members.

Basis of presentation

The financial statements of the Council have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles.

The Council's basic financial statements include both government-wide, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide financial statements

The statement of net position and the statement of activities display information about the Council as a whole. The statement of net position presents the financial condition of the governmental activities of the Council at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Council's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

particular function. Program revenues include (1) charges paid by the recipient for goods or services or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Taxes and other items not properly included among program revenues are reported instead as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Council.

Measurement focus and basis of accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Council considers revenues available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Interest and charges for services associated with the current fiscal period are considered susceptible to accrual and so have been recognized as revenues of the current period.

The Council reports the following major governmental funds:

General Fund – to account for all unrestricted resources except those required to be accounted for in another fund. All resources of the Council are accounted for in the General Fund.

Budgetary principles

Applicable Kansas statutes require that budgets be legally adopted for all funds on or before August 25 for the ensuing year, unless exempted by a specific statute. The Board of County Commissioners is required by state statute to approve the annual operating budget of the McPherson County Extension Council and levy property taxes, within statutory limitations, for the financing of such budgeted appropriations. The Council's taxes are levied under the taxing authority of the County and are included as part of the County's

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

total tax levy however, the Council's operating budget is not subject to the general budget laws of the State of Kansas. The General Fund budget is prepared utilizing the modified accrual basis of accounting further modified through the use of encumbrance accounting. Budgeted revenue and expenditure amounts represent the original budget as adopted by the Council.

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances of the budgeted funds, representing purchase orders, contracts and other commitments, are reported as a charge to the current year budget. All unencumbered appropriations lapse at the end of the year, except for outstanding encumbrances, which are reappropriated in the following year. Accordingly, the actual data presented in the budgetary comparison statement can differ from the data presented in the financial statements prepared in accordance with generally accepted accounting principles (GAAP). There were no outstanding encumbrances at December 31, 2016 or December 31, 2015. Accordingly, there are no differences between fund balance reported in conformity with GAAP and the budgetary basis fund balance at December 31, 2016.

Inventories and prepaid items

Inventories and prepaid items that benefit future periods are recorded as expenditures in the year of purchase. There were no material inventories at December 31, 2016.

Risk management

The Council is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Council carries commercial insurance coverage for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Capital assets

Capital assets are capitalized at total acquisition cost, provided such amounts have a useful life of more than one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. The Council defines capital assets as assets with an initial individual cost greater than \$100. Donated capital assets are reported at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is recorded on all depreciable capital assets (equipment) on a straight-line basis over their estimated useful lives of three to ten years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Compensated absences

County extension agents earn twenty-two days of annual leave pay for each full year of employment with a maximum accumulation of thirty-eight days. All other full-time Council employees earn one day per month for the first five years of employment, one and one-fourth days per month for employees between five and ten years of service, one and one-half days per month for employees between ten and fifteen years of service, and for employees with more than fifteen years of service, one and three-fourths days per month is earned. Part-time employees earn one hour for every 22 hours worked. Annual leave is earned on a fiscal year basis from July 1 through June 30.

Sick pay is granted to County extension agents and all full-time Council employees at the rate of one day for each month of employment with no maximum accumulation. Part-time employees earn one hour for every 22 hours worked during the first five years of employment, one and one-fourth hours for every 22 hours worked between five and ten years of service, one and one-half hours for every 22 hours worked between ten and fifteen years of service, and for employees with more than fifteen years of service, one and three-fourths hours are earned for every 22 hours worked. County extension agents are paid from 30 to 60 days of accumulated sick pay depending on the total accumulated days and number of years of service at retirement. Policies require the cancellation of accumulated sick pay on date of termination for all other employees.

The entire compensated absences liability is reported on the government-wide financial statements. The liability is based on current salary costs and the vested portion of accumulated benefits.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent that they are due for payment during the current year.

Pension plan

Substantially all full-time employees, except for County extension agents, are members of the State of Kansas Public Employees' Retirement System, which is a cost sharing multi-employer statewide pension plan. The Council's policy is to fund all pension costs accrued; such costs to be funded are determined annually by the system's actuary. County extension agents are members of the State of Kansas pension plan administered through Kansas State University. The Council is not legally responsible for making contributions on behalf of its County extension agents.

Deferred Inflows of Resources/Deferred Outflows of Resources

A deferred outflow of resources is the consumption of net position that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position applicable to a future reporting period. The Council has identified changes in the pension liability proportion and differences between expected and actual experience as financial balances that meet the definition of a deferred outflow of resources and/or a deferred inflow of resources.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Equity Classifications

In the government-wide financial statements, equity is reflected as net position and classified into three components:

- Invested in capital assets, net – consisting of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, leases, or other borrowings that are attributable to the acquisitions, construction or improvements of those assets.
- Restricted net position – consisting of net position with constraints place on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Council's policy is to apply restricted net position first.
- Unrestricted net position – all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net".

As prescribed by Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, governmental fund balance classifications are based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the funds can be expended. In the governmental funds financial statements, equity is classified into potentially five components:

- Nonspendable – Assets that cannot be spent because they are either (1) not in spendable form; or (2) legally or contractually required to be maintained in tact.
- Restricted – Assets with externally imposed constraints such as those mandated by creditors, grantors, and contributors, or laws and regulations. Such constraint is binding unless modified or rescinded by the applicable external body, laws or regulations.
- Committed – Assets with a purpose formally imposed by resolution by the County Extension Council Board, binding unless modified or rescinded by the County Extension Council Board.
- Assigned – Comprised of amounts intended to be used by the Council for specific purposes that are neither restricted nor committed. Intent is expressed by (1) the County Extension Council Board or (2) a body or official to whom the County Extension Council Board has delegated the authority to assign amounts to be used for specific purposes as prescribed by the Council's policies. The Executive Board of the County Extension Board has been delegated authority to assign amounts for specific purposes within the Council's established policies.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

- Unassigned – All amounts not included in the other fund balance classifications. The General Fund shall be the only fund to report positive unassigned fund balance. All other governmental funds may report negative unassigned fund balance.

In circumstances when expenditure is made for a purpose which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

The Council has no formal fund balance policy to maintain a minimum unrestricted fund balance for the Council's General Fund.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. DEPOSITS AND INVESTMENTS

Kansas Statutes Annotated (K.S.A.) 9-1401 establishes the depositories that may be used by governmental entities in Kansas. The statute requires banks eligible to hold the Council's funds have a main or branch bank in the county, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of Federal Depository Insurance Corporation coverage. The Council has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Council's investment of idle funds to time deposits, open accounts and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Council has no investment policy that would further limit its investment choices.

Concentration of credit risk

State statutes place no limit on the amount the Council may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The Council's allocation of investments as of December 31, 2016, is as follows:

<u>Investment</u>	<u>Percentage of Investments</u>
Peoples Bank and Trust – money market deposits	100%

2. DEPOSITS AND INVESTMENTS (continued)

Custodial credit risk – deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Council's deposits may not be returned to the Council. State statutes require the Council's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, Kansas.

At year-end, the carrying amount of the Council's deposits was \$134,476 with the bank balances of such accounts being \$144,310. The bank balances were entirely covered by Federal Depository Insurance Corporation (FDIC) insurance at December 31, 2016.

Custodial credit risk – investments

For an investment, this is the risk that, in the event of failure of the issuer or counterparty, the Council will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. State statutes require investments to be adequately secured.

3. CHANGES IN CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016 was as follows:

	Balance January 1, <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2016</u>
<u>Governmental Activities:</u>				
Capital assets being depreciated:				
Equipment	\$ 86,991	\$ 42,699	\$ –	\$ 129,690
Less accumulated depreciation	<u>82,671</u>	<u>1,458</u>	<u>–</u>	<u>84,129</u>
Total capital assets, net	<u>\$ 4,320</u>	<u>\$ 41,241</u>	<u>\$ –</u>	<u>\$ 45,561</u>

Depreciation was charged to functions/programs as follows:

<u>Governmental Activities:</u>	
Agriculture and Natural Resources	\$ 486
4-H Youth Development	486
Family and Consumer Sciences	<u>486</u>
Total depreciation expense – Governmental Activities	<u>\$ 1,458</u>

4. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended December 31, 2016 is as follows:

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016	Due Within One Year
Compensated absences payable	\$ 38,393	\$ 17,942	\$ 25,540	\$ 30,795	\$10,829
Net pension liability	<u>38,669</u>	<u>11,588</u>	<u>4,790</u>	<u>45,467</u>	<u>—</u>
Total	<u>\$ 77,062</u>	<u>\$ 29,530</u>	<u>\$ 30,330</u>	<u>\$ 76,262</u>	<u>\$10,829</u>

5. PENSION PLAN

Plan description

The Council participates in the Kansas Public Employees Retirement System, a cost sharing multiple employer defined benefit pension plan. The Pension Plan is administered by the Kansas Public Employees Retirement System (KPERS), a body corporate and an instrumentality of the State of Kansas. KPERS provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74-4901 *et. seq.*:

- Public employees, which includes:
 - State/School employees
 - Local employees
- Police and Firemen
- Judges

Substantially all public employees in Kansas are covered by the Pension Plan. The State of Kansas and Kansas schools are required to participate, while participation by local political subdivisions is optional, but irrevocable once elected.

Those employees participating in the Pension Plan for the Council are included in the local employees group.

KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS, 611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803, by calling 1-888-275-5737 or via KPERS website at www.kpers.org.

Benefits provided

KPERS provides retirement benefits, life insurance, disability income benefits and death

5. PENSION PLAN (continued)

benefits. Kansas law establishes and amends benefit provisions. Members with ten or more years of credited service may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of credited service equal 85 "points".

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas.

The 2012 Legislature made changes affecting new hires, current members and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015, was created. Normal retirement age for KPERS 3 is 65 with five years of service or 60 with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions

Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates are determined based on the results of an annual actuarial valuation for each of the three state wide pension groups. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employees, which includes the state and school employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.1% of total payroll for the fiscal year ended June 30, 2016.

5. PENSION PLAN (continued)

The actuarially determined employer contribution rates and the statutory contribution rates for KPERS employees (not including the 1% contribution rate for the Death and Disability Program) are 9.18% for the local employees group. Member contribution rates as a percentage of eligible compensation for the fiscal year 2016 are 6% for KPERS employees.

The 2015 Legislature passed and the Governor approved Senate Bill 228, which authorized the issuance of \$1 billion in pension obligation bonds to improve the funding of the state/school group. The bonds were issued in August 2015 and deposited in the trust fund on August 20, 2015. This legislation reset the state/school statutory rate to 10.91%. In fiscal year 2015 for the state/school employer group, the Governor declared an allotment affecting the employer rate for the last two quarters of the fiscal year. The employer rate was reduced from 11.27% to 8.65%.

Employer Allocations

Although KPERS administers one cost sharing multiple employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense are determined separately for each of the following groups of the plan:

- State/School
- Local
- Police and Firemen
- Judges

To facilitate the separate (sub) actuarial valuations, KPERS maintains separate accounts to identify additions, deductions and fiduciary net position applicable to each group. The allocation percentages for each group as of June 30, 2016, are based on the ratio of each employer's contributions to total employer and nonemployer contributions of the group for the fiscal year ended June 30, 2016. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2016, the Council's proportion was 0.002939%, which was a decrease of 0.000006% from its proportion measured at June 30, 2015.

Receivables

In addition to statutorily determined contractually required contributions, certain agencies also make payments through an additional component of their required employer contribution rate or annual installment payments, both options include interest at 8 percent per year, for the cost of service credits granted retroactively when the agencies initially joined the retirement system. As of June 30, 2016, the outstanding balance was \$6,327,937. These payments are due over various time periods up through December 31, 2032.

5. PENSION PLAN (continued)

The 2016 Legislature passed the Governor approved Senate Bill 161, authorizing the delay of up to \$100 million in KPERS state/school contributions. The bill requires that the delayed fiscal year 2016 contributions be paid by June 30, 2018, with interest at 8 percent. The long-term receivable of the delayed contributions plus interest at June 30, 2016, totals \$99,022,353 and has been included in the state/school contributions at June 30, 2016.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At December 31, 2016, the Council reported a liability of \$45,467 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

For the year ended December 31, 2016, the Council recognized pension expense of \$4,702. At December 31, 2016 the Council reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Council contributions subsequent to the measurement date	\$ 2,541	\$ —
Differences between expected and actual experience	264	821
Net difference between projected and actual earnings on pension plan investments	5,371	—
Changes in assumptions	—	425
Changes in proportion	<u>31</u>	<u>1,803</u>
Total	<u>\$ 8,207</u>	<u>\$ 3,049</u>

The Council reported \$2,541 as deferred outflows of resources related to pensions resulting from the County's contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows or (deferred inflows) of resources and (deferred inflows) of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ (55)
2018	(55)
2019	1,605
2020	1,098
2021	24
Thereafter	—

5. PENSION PLAN (continued)

Actuarial assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	– 3.0 percent
Wage inflation	– 4.0 percent
Salary increases	– 4.00 percent to 16.00 percent, including inflation
Investment rate of return	– 8.00 percent, net of investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study conducted for the three-year period ending December 31, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major assets class included in the pension plan's target asset allocations as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>June 30, 2016</u>	
	<u>Long-Term Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	47.00%	6.80%
Fixed Income	13.00	1.25
Yield Driven	8.00	6.55
Real Return	11.00	1.71
Real Estate	11.00	5.05
Alternatives	8.00	9.85
Short-Term Investments	<u>2.00</u>	<u>(0.25)</u>
Total	<u>100.00%</u>	

Discount rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be

5. PENSION PLAN (continued)

made at the contractually required rate. The State, School and Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Employers contribute the full actuarial determined rate for Police & Firemen and Judges. Future employer contribution rates were also modeled for Police & Firemen and Judges, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the net pension liability of the Pension Plan as of June 30, 2016 calculated using the discount rate of 8.00%, as well as what the Pension Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	June 30, 2016		
	1.00% Decrease (7.00%)	Current Discount Rate (8.00%)	1.00% Increase (9.00%)
Net pension liability	\$ 62,320	\$ 45,467	\$ 31,177

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

6. OTHER POSTEMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the Council is required to allow retirees to participate in its group health insurance plan. While each retiree is required to pay the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy, if any, has not been quantified in these financial statements. Management believes the effect on the Council's financial statements is not significant.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Council makes health care benefits available to eligible former employees and their eligible dependents. The federal government outlines certain requirements for this coverage. The premium is paid entirely by the insured and there is no cost to the Council under this program.

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 7, 2017, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**COUNTY EXTENSION COUNCIL
McPHERSON COUNTY, KANSAS**

REQUIRED SUPPLEMENTARY INFORMATION

KPERS PENSION PLAN

**Schedule of Council's Proportionate Share of the Net Pension Liability
Last Four Years ***

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Council's proportionate percentage of the net pension liability	.002939%	.002945%	.003124%	.003120%
Council's proportionate share of the net pension liability	\$ 45,467	\$ 38,669	\$ 38,451	\$ 47,489
Council's covered employee payroll	\$ 51,220	\$ 47,500	\$ 48,665	\$ 48,363
Council's proportionate share of the net pension liability as a percentage of its covered employee payroll	88.77%	81.41%	79.01%	98.19%
Plan fiduciary net position as a percentage of the total pension liability	68.55%	71.98%	72.56%	64.56%

**Schedule of Council's Contributions
Last Four Years ***

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 4,790	\$ 5,259	\$ 4,774	\$ 4,553
Contributions in relation to the contractually required contribution	<u>(4,790)</u>	<u>(5,259)</u>	<u>(4,774)</u>	<u>(4,553)</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Council's covered employee payroll	\$ 52,179	\$ 55,475	\$ 54,005	\$ 57,343
Contributions as a percentage of covered employee payroll	9.18%	9.48%	8.84%	7.94%

* — Data became available with the inception of GASB Statement No. 68 during fiscal year 2015, therefore 10 years of data is unavailable.

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